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Message Text

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ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 TRSE-00 IGA-01 L-01 H-01 INR-05

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R 221517Z JUL 76
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 5476

C O N F I D E N T I A L CAIRO 9933

LIMDIS

E.O. 11652: GDS
TAGS: EAID, EG
SUBJECT: EGYPT'S FINANCIAL GAP

REFS: (A) STATE 180076 (B) CAIRO 9710

1. EMBOFFS MET WITH DICKIE JULY 22 TO DISCUSS FINANCIAL GAP IN LIGHT OF QUESTIONS POSED REFTEL (A). RESULTS OF MEETING ARE DISCUSSED BELOW, ALONG WITH NUMBERS THAT EMERGED.

2. IN CONSIDERATION THIS IMPORTANT AND COMPLICATED SUBJECT, EMBASSY SUGGESTS THAT DEPARTMENT BEAR IN MIND THAT THERE ARE BASICALLY TWO KINDS OF EGYPTIAN STATISTICS: QUESTIONABLE AND UNAVAILABLE. AS REF (A) MAKES CLEAR, THERE CAN BE AS MANY DIFFERING SETS OF NUMBERS AS THERE ARE INDIVIDUALS ENGAGED IN PREPARING THEM. THIS IS EVEN MORE THE CASE WHEN EACH SET IS HEAVILY DEPENDENT ON ASSUMPTIONS AND ESTIMATES. GUNTHER'S JUNE IMF PRESENTATION, FOR EXAMPLE, WAS HEAVILY CAVEATED AS BEING A "ROUGH INDICATION OF MAGNITUDE."

3. KEY POINT, ON WHICH EVERYONE APPEARS TO AGREE, IS THAT EGYPT WILL SUFFER EFFECTS OF FINANCIAL GAP OF MAJOR PROPORTIONS THIS YEAR. SIGNIFICANT NUMBER OF IMPONDERABLES (INVENTORY DRAWDOWN, USE OF COMMERCIAL FACILITIES, INCREASES
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IN ARREARAGES, ETC.) EFFECTIVELY PREVENT DETERMINATION OF

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ANYTHING OTHER THAN ESTIMATES OF SIZE OF GAP, AND IT SHOULD BE SUFFICIENT FOR ALL TO AGREE ON A REASONABLE SPREAD.

4. WITH FOREGOING AS PREAMBLE, INFORMATION FROM DICKIE WHICH FOLLOWS IS PERHAPS ILLUSTRATIVE OF PROBLEM. IMF ESTIMATE OF $853 MILLION AS ADDITIONAL REQUIRED FINANCING IS STILL VALID FUND CALCULATION. (HIS MENTION OF $800 MILLION IN CAIRO 9350 IS IN "ORDER OF MAGNITUDE" CATEGORY, GIVEN NATURE OF PROJECTIONS ON WHICH $853 MILLION FIGURE IS BASED.) ON BASIS HIS CONVERSATIONS WITH MINFIN OFFICIALS, HOWEVER, DICKIE REPORTS GOE ESTIMATE IS CURRENTLY $1.25 BILLION (SEE REF B). THIS FIGURE IS DERIVED BY ADDING FOLLOWING TO $850 MILLION IMF ESTIMATE: LOSS OF STANDBY AND ASSOCIATED FINANCING (CHASE MANHATTAN) $125 MILLION; OVERESTIMATE OF SUEZ AND OIL REVENUES - $175 MILLION; UNDERESTIMATE OF OTHER PAYMENTS - $100 MILLION; TOTAL GAP - $1.25 BILLION. (THIS PROJECTION INCLUDES PRESUMED RECEIPT OF $225 MILLION FROM UAE AND QATAR, BUT EXACT STATUS THESE FUNDS IS APPARENTLY NOT CLEAR.)

5. EMBASSY (AND DICKIE) AGREE THAT SIZE OF GAP IS INDEED QUESTIONABLE, AND COMPLICATES DETAILED CONSULTATIONS WITH DONORS, AS STATED PARA 8, REF A. EXISTENCE OF GAP IS BEYOND QUESTION, HOWEVER, AND GIVEN OUR INTEREST IN ASSISTING EGYPT IN SECURING ADDITIONAL ASSISTANCE, IT MAY BE SUFFICIENT TO SELECT A REASONABLE NUMBER AND WORK WITH IT; ANY SPECIFIC FIGURE WILL BE OPEN TO DEBATE.

6. IMPORTANT THING IS TO HAVE A TARGET, EVEN IF IT MAY NOT BE ACHIEVED, AND TO BEGIN EFFORTS TO ENCOURAGE DONATIONS. EVERYONE IS AWARE THAT EGYPT NEEDS HELP OF CONSIDERABLE MAGNITUDE AND PRECISE NUMBERS MAY NOT BE NECESSARY OR PARTICULARLY HELPFUL. IN ANY EVENT, THEY ARE CLEARLY NOT AVAILABLE IN ANY PRECISION. WE SUGGEST, THEREFORE, THAT TOTAL OF ONE BILLION DOLLARS, FIGURE WE USED LAST YEAR, BE ADOPTED AS BEST ESTIMATE OF NEED FOR CURRENT HAT-PASSING EXERCISE. EILTS

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